

Report
of the
Examination of
Verex Assurance, Inc.
Madison, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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February 15, 2002

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Honorable Connie L. O'Connell
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State of Wisconsin
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Commissioners:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

VEREX ASSURANCE, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Verex Assurance, Inc. ("Verex," the "company") was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Affiliated Companies
- Run-off of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Verex Assurance, Inc. was incorporated in Wisconsin in 1961 under the name Continental Mortgage Insurance, Inc. (CMI). In 1970 CMI Investment Corporation (CMI Investment) was formed to serve as the holding company for CMI and its affiliates, and through 1977 CMI Investment held 99.9% ownership of the company. CMI transacted a reverse stock split on October 31, 1977 that effectively eliminated CMI minority interest, and CMI Investment became the sole stockholder of the company.

CMI Investment changed its name to Verex Corporation on December 31, 1977, and CMI's name was changed to Verex Assurance, Inc., the name presently used by the company. Verex Corporation was purchased by Greyhound Dial Corporation (Greyhound) effective March 31, 1978. Greyhound changed its name to The Dial Corp. (Dial) on May 14, 1991. GFC Financial Corporation (GFC) was incorporated in 1991 in Delaware as a holding company subsidiary of Dial, and ownership of Verex Corporation was transferred to GFC on March 18, 1992.

Effective July 16, 1993, GE Capital Mortgage Corporation (GECMC), a subsidiary of the General Electric Company (GE), purchased 100% ownership interest of Verex Corporation, and ultimate ownership and control of Verex Assurance, Inc. thereby transferred to GE. Verex operations were subsequently moved to the offices of General Electric Mortgage Insurance Corporation (GEMIC) in Raleigh, North Carolina. Verex Corporation was merged into GECMC as of November 7, 1994, and GECMC held the capital stock of Verex Assurance, Inc. through June 1, 2001. Effective June 1, 2001, GECMC was liquidated and merged into its immediate parent, General Electric Capital Corporation (GECC). Upon the GECMC liquidation and merger, the former GECMC subsidiary companies including Verex were ultimately contributed to GE Mortgage Holdings, LLC (GEMH). GEMH is now the immediate parent of Verex.

Verex does not have any employees, and all of the company's business operations are performed by affiliates pursuant to numerous intercompany transaction relationships and agreements. Further discussion of the GE holding company organization, description of the mortgage guaranty insurance affiliates of Verex, and description of the company's intercompany transactions is included in the section of this report captioned "Affiliated Companies."

Verex Assurance, Inc. purchased Home Guaranty Insurance Corporation (HGIC) effective December 2, 1992, and held HGIC as a wholly owned subsidiary at the time of the previous examination of Verex. HGIC was incorporated as a Virginia domiciled mortgage guaranty insurer on September 13, 1976, and was in run-off at the time of its 1992 acquisition by Verex. On April 16, 1996, Verex sold HGIC to an unaffiliated third party. Under the purchase transaction, the buyer acquired 100% of HGIC capital stock and certain other assets, and Verex assumed 100% of HGIC's mortgage insurance liabilities through an assumption reinsurance agreement. All of the assets and liabilities of HGIC that were not sold were transferred to Verex as an extraordinary dividend in the amount of \$14,289,574. Proceeds from the sale of HGIC were \$8,484,928, and Verex recorded a loss on the sale of \$6,801,895.

Verex is authorized as a monoline mortgage guaranty insurer, and its in-force business consists solely of residential mortgage guaranty insurance. The company's insurance policies insure first-lien residential mortgage loans on owner occupied one-to-four family homes. Mortgage guaranty insurance protects mortgage lenders against certain losses resulting from nonpayment of loans secured by mortgages, deeds of trust, or other instruments constituting a lien on real estate.

There are two principal types of mortgage guaranty insurance, primary insurance and pool insurance. Primary insurance provides mortgage loan default protection on individual loans. The insurance covers unpaid loan principal, delinquent interest, and certain expenses associated with loan default and subsequent foreclosure, in the event that the mortgage borrower defaults on a loan. Pool insurance provides insurance coverages on a pool of mortgage loans. Effective the first business day of fiscal 2000, the company assigned all of its direct pool risks to the affiliated insurer GEMIC, and the company's current portfolio of direct insurance in force includes only primary insurance risks.

Verex is licensed in each state jurisdiction and in the District of Columbia. In 2000 the company had direct premium in the following states:

Florida	\$430,989	14%
Texas	423,685	14%
New Jersey	267,540	9%
Pennsylvania	179,740	6%
California	155,721	5%
All others	<u>1,575,368</u>	<u>52%</u>
	<u>\$3,033,043</u>	<u>100%</u>

Verex discontinued direct writing of new business effective January 1, 1988, and the company's entire book of insurance in-force has been in run-off for the past fourteen years. The company's current direct and assumed written business consists solely of policy renewals. Mortgage guaranty insurance may not be terminated by a mortgage insurer except in the event of non-payment of premiums, and an existing mortgage guaranty insurance policy remains renewable at the option of the insured lender. An insured lender may elect to cancel insurance coverages at any time, upon the repayment or termination of the insured loan or upon the mortgage borrower's attainment of sufficient equity in the mortgaged real estate. Verex's insured risks in force and annual premium revenues are decreasing from year-to-year, as existing insured mortgages mature and insured lenders terminate or non-renew insurance coverages. The company's current business plan is to continue the run-off of existing Verex insurance policies, and at present company management does not have specific plans for the company to resume direct issuance or reinsurance of new business.

The following table provides a summary of the net insurance premiums written by the company in 1988, 1995, and in 2000. A comparison of premiums written in 2000 with that written in 1988, the year that the company ceased writing new business, and in 1995, at the time of the previous examination, illustrates the magnitude of the run-off of the company's business. From 1988 to 2000 net premiums written decreased 96%. From 1995 to 2000 net premiums written decreased by 81%. The run-off of the company's insurance business is further discussed in the Financial Data section of this report.

Year	Net Premiums Written				Net Premiums To Surplus
	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium	
1988	\$93,983,752			\$90,943,328	38%
1995	\$18,562,798	\$305,029	\$2,015,387	\$16,852,440	14%
2000	\$3,033,043	\$70,996	\$(123,114)	\$3,227,151	2%

III. MANAGEMENT AND CONTROL

Board of Directors

The current Verex board of directors consists of nine members, each of whom serves a one-year term of office. Verex bylaws provide that the number of directors shall be between seven and fifteen persons, each of whom shall be elected at the stockholder's annual meeting to a one-year term of membership. Any action that is required to be or permitted to be taken by a meeting of the stockholders may be taken without a formal meeting if consent in writing setting forth the actions taken is executed by all persons entitled to vote in the matter of action. During the years under examination, the sole shareholder of Verex has not held formal annual meetings, and has elected the directors annually by Written Consent of the Sole Shareholder.

Members of the Verex board of directors may also be members of other boards of directors in the holding company group, and each Verex director is an officer within the GE Capital group. Verex does not pay its directors any form of compensation for services that the directors perform as members of the Verex board of directors.

Currently the Verex board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Thomas H. Mann Raleigh, NC	President and CEO General Electric Mortgage Insurance Corporation.	2002
Jeremia A. Jacobs Raleigh, NC	Senior Vice President General Electric Mortgage Insurance Corporation.	2002
Samuel Marsico Raleigh, NC	Senior Vice President General Electric Mortgage Insurance Corporation.	2002
Gerhard A. Miller Raleigh, NC	Senior Vice President General Electric Mortgage Insurance Corporation.	2002
Richard J. Nastasi Raleigh, NC	Senior Vice President General Electric Mortgage Insurance Corporation.	2002
JoAnn B. Rabitz Raleigh, NC	Senior Vice President General Electric Mortgage Insurance Corporation.	2002
Henry A. Reeves Raleigh, NC	Senior Vice President Verex Assurance, Inc.	2002
Gail Snyder Raleigh, NC	Vice President General Electric Mortgage Insurance Corporation.	2002

Theodore F. Weiland
Raleigh, NC

Senior Vice President and CFO
General Electric Mortgage Insurance Corporation.

2002

Officers of the Company

Verex bylaws provide that all officers shall be chosen by the board of directors at the board's first meeting held after the annual meeting of shareholders. Any action which may be taken by a meeting of the board of directors may be taken without a formal meeting if consent in writing setting forth the actions taken is executed by all persons entitled to vote in the matter of action. During the years under examination the Verex board of directors has not held any formal board meetings, and the board has appointed the officers annually by Written Action by the Directors Without Meeting. The senior executive officers of Verex serving at the time of this examination are as follows:

Name	Office	2000 Compensation
Thomas H. Mann	President and Chief Executive Officer	\$2,995,734 *
Theodore F. Weiland III	Treasurer and Chief Financial Officer	476,686 *
John C. Taggart	Secretary	310,642 *
Jerome Upton	Vice President and Controller	162,831 *
Gerhard A. Miller	Senior Vice President	698,117 *

* Each officer of Verex Assurance, Inc. is employed by General Electric Mortgage Insurance Corporation, and each Verex officer serves as a senior executive in the GE mortgage insurance group. Each Verex officer is paid employment compensation by GEMIC for services performed in the capacity of an executive employee of GEMIC. Verex does not pay direct compensation to its executive officers for the services that they perform in the capacity of officers of Verex.

Committees of the Board

Verex bylaws provide for the formation of certain committees by the board of directors. Committees of the board and their membership at the time of the examination are listed below:

Executive Committee

Thomas H. Mann, Chair
Samuel Marsico
Gerhard A. Miller
Theodore F. Weiland

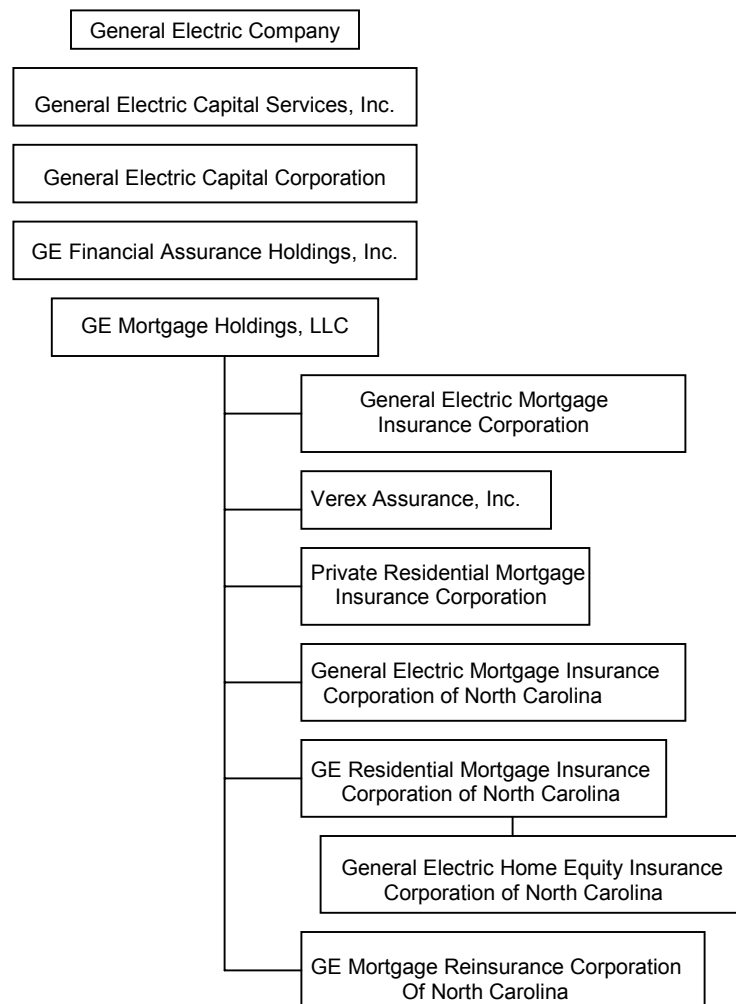
Investment Committee

Thomas H. Mann, Chair
Theodore F. Weiland
Samuel Marsico
Gail Snyder

IV. AFFILIATED COMPANIES

Verex is a subsidiary in the General Electric Company holding company system. The organizational chart below depicts the relationships among controlling entities and the mortgage guaranty insurance affiliates in the group. A brief description of the controlling entities and the mortgage guaranty insurance affiliates of Verex follows the organizational chart, followed by a summary of significant holding company transactions and of intercompany agreements.

**General Electric Company and Mortgage Guaranty Insurance Affiliates
Organization Chart
As of June 1, 2001**



General Electric Company (GE)

General Electric Company was incorporated in New York in 1892. GE is a global manufacturing and services corporation engaged in multiple business enterprises that include electrical power generation, aircraft engines, commercial television broadcasting, plastics, medical systems, global consumer finance, consumer products, and insurance. GE's diverse product and service businesses are conducted through a broad international organization of subsidiary companies. General Electric Company's December 31, 2000 consolidated GAAP basis audited financial statements reported total assets of \$437 billion, total liabilities of \$4.9 billion, net income of \$12.7 billion, and shareowner's equity of \$50.5 billion.

General Electric Capital Services, Inc. (GE Capital Services)

GE Capital Services is incorporated in the State of Delaware, and serves as a non-operating holding company for General Electric Company's two principal financial services subsidiary groups. GE Capital Services' December 31, 2000 GAAP basis audited financial statements reported total assets of \$371 billion, total liabilities of \$348 billion, net income of \$5 billion, and shareowner's equity of \$23 billion.

General Electric Capital Corporation (GE Capital)

GE Capital provides a wide variety of financing, asset management, and insurance products in five operating segments: (1) consumer services, (2) equipment management, (3) mid-market financing, (4) specialty financing, and (5) specialty insurance. Originally incorporated in the State of New York in 1943, GE Capital redomiciled to the State of Delaware in 2001. GE Capital's December 31, 2000 GAAP basis audited financial statements reported total assets of \$333 billion, total liabilities of \$307 billion, net income of \$4 billion, and shareowner's equity of \$26 billion.

GE Financial Assurance Holdings, Inc. (GE Financial Assurance)

GE Financial Assurance, through its direct and indirect subsidiaries, is engaged in life insurance, annuity, long-term care insurance, mutual fund, retirement investment plan, income protection, and property and casualty insurance business, primarily in North America and Asia.

GE Mortgage Holdings, LLC (GEMH)

GE Mortgage Holdings, LLC is an insurance holding company that was established in 2001 to serve as the immediate parent holding company for the mortgage guaranty insurance companies controlled by GE. Effective June 1, 2001 GE Capital Mortgage Corporation, the former holding company for the GE mortgage guaranty insurers, was liquidated and merged into GE Capital. GE Capital subsequently contributed the capital stock of the insurers formerly held in GE Capital Mortgage Corporation to GE Financial Assurance, which in turn contributed the capital stock of the mortgage guaranty insurers to GE Mortgage Holdings, LLC.

General Electric Mortgage Insurance Corporation (GEMIC)

General Electric Mortgage Insurance Corporation is a North Carolina-domiciled mortgage guaranty insurer. GEMIC is the lead direct writing mortgage guaranty insurer in the GE mortgage insurance group. GEMIC's December 31, 2000 statutory financial statements reported total assets of \$3,392,661,502, total liabilities of \$2,432,341,314, net income of \$606,260,643, and policyholder's surplus of \$960,320,188.

Other GE Mortgage Guaranty Group Insurer Affiliates

As noted above, GEMIC serves as lead insurer in the GE mortgage guaranty group. The remaining companies in the group are comprised of five mortgage guaranty insurers domiciled in North Carolina. Three of the affiliated insurers, Private Residential Mortgage Insurance Corporation (PRMIC), General Electric Mortgage Insurance Corporation of North Carolina (GEMIC-NC), and GE Residential Mortgage Insurance Corporation of North Carolina (GERMIC), provide excess of loss reinsurance to GEMIC. PRMIC, GEMIC-NC, and GERMIC each assume excess of loss reinsurance on mortgage guaranty coverages that are in excess of 25% of the insured loan amount, which is retained by GEMIC. Each of the three companies' reinsurance coverages on any single loan is limited to a maximum of an additional 25% of the loan amount that is insured by GEMIC.

The remaining two affiliate mortgage insurers, General Electric Home Equity Insurance Corporation of North Carolina (GEHEIC) and GE Mortgage Reinsurance Corporation of

North Carolina (GEMRC), to-date have not written any insurance policies and have not undertaken any insurance risks.

Affiliated Agreements

Shared Services Agreement

Most of the day-to-day operating functions of the company, including underwriting, claims, and administrative services, are performed by General Electric Mortgage Insurance Corporation. Services provided by GEMIC include processing of renewals, underwriting administration, processing of refunds, processing of cancellations, claims adjusting services, financial administration, financial reporting, and regulatory compliance. GEMIC costs are allocated to Verex for GEMIC direct expenses that are for the sole benefit of Verex plus a monthly GEMIC overhead cost allocation of \$2,000.

Prior to the liquidation and merger of GEPMC in 2001, services were provided pursuant to an agreement between GEPMC and each of the insurers in the GE mortgage insurance group. Upon the liquidation and merger of GEPMC the then-existing intercompany services contracts terminated. The GE mortgage insurance group is in the process of establishing replacement shared services agreements between GEMIC and its affiliated mortgage guaranty insurers including Verex. The GE group has submitted proposed services agreements to the Commissioners of Wisconsin and North Carolina for the respective GE insurers, including Verex, and the agreements are currently undergoing regulatory review.

Invested Assets Management Agreement

Investment management of the company's invested assets is provided by General Electric Management Incorporated (GEMI) pursuant to an investment management agreement between GEMI and the GE mortgage guaranty insurers including Verex. Services provided by GEMI include the management of company accounts, comprised of certain allocated invested assets, and selection of investments in compliance with the company's investment management policy and instructions to the manager. Compensation paid to the manager for investment services is established as the lower of the fee schedule exhibit of the investment management agreement or the fee charged by the manager to a similar client not affiliated to the manager that is lower than the agreement schedule fee.

Invested Assets Advisory Agreement

The company is afforded investment advisory services pursuant to an investment advisory agreement between the company and General Electric Capital Assurance Company (GECA). With reference to the company's designated investment accounts and portfolios, GECA provides continuous management services, including retention of fund managers, research and identification of appropriate investment opportunities, investment of company assets in bonds and cash equivalents, voting of proxies, sale of investments as appropriate, and preparation and presentation of summary reports of investment activities. GECA is authorized to select brokers and dealers for the execution of securities transactions on behalf of the company. Compensation paid to GECA is on a monthly allocated cost basis plus reimbursement of all GECA direct expense incurred on behalf of the company.

Purchase and Sale of Real Estate Property Agreements

The company is party to the Agreement to the Purchase and Sale of Property between each of the GE mortgage guaranty insurers and GE Capital Mortgage Services, Inc. (GECMS). Under the agreement GECMS acts as the Purchaser of real estate properties that are acquired by the company in settlement of defaulted mortgage loans that were insured by the company. By agreement, the company as Seller agrees to sell and GECMS agrees to purchase subject foreclosed properties upon an agreed closing date. Properties transfer between the parties at a price equal to the current market value of the property multiplied by an agreed price factor. Property transfers under the agreement have been transacted at 90% of current market value as of March 31, 1995 and continuously to the present.

Premium and Municipal Tax Services Agreement

The company is party to the Premium and Municipal Tax Services Agreement between each of the GE mortgage guaranty insurers and General Electric Capital Assurance Corporation (GECA). GECA is an affiliated life insurance company domiciled in the State of Delaware, and has a staff that administers and pays premium and municipal taxes for its own and related affiliates' accounts.

Pursuant to the tax services agreement, GECA acts to coordinate, manage and pay the premium and municipal taxes of the insurers in the GE mortgage insurance group including Verex. Under the agreement GECA acts in conformity with instructions or directions of the officers or directors of the GE mortgage insurers, prepares and sends all premium and municipal tax returns, remits amounts of tax payment when due, reconciles the general ledger premium and municipal tax accounts to detail ledgers, and coordinates with the GE mortgage insurers regarding premium and municipal tax law changes and GE corporate tax strategy. GEMIC pays an annual fee of \$40,000 to GECA for GECA tax services, and each of the GE mortgage insurers pays reimbursement for amounts paid by GECA on the respective company's behalf for premium and municipal tax.

Federal Income Tax Allocation Agreement

The company is party to the Federal Income Tax Allocation Agreement between each of the GE mortgage guaranty insurers and General Electric Capital Corporation. Each of the participating insurers is a subsidiary of GE Capital, each is a member of an "Affiliated Group" as defined in the Internal Revenue Code of 1986, and all of the participants consent to join in the filing of a consolidated federal income tax return with their common parent, General Electric Company. The agreement provides that each subsidiary is charged (or credited) the amount of federal income tax liability (or benefit) that the subsidiary would have been obligated to pay (or entitled to receive) if it had filed on a separate return basis, and in no event does the tax charged to any subsidiary exceed that which the subsidiary would have paid on a separate return basis.

V. REINSURANCE

The reinsurance portfolio and strategy of Verex are described below. The company has not written nor assumed any liability for new insurance risks since 1988, and its business has been in run-off since that date. Each reinsurance treaty to which the company is party contains proper insolvency provisions.

The company is party to various reinsurance assumption and ceding treaties for reinsurance transactions that are usual and customary to the mortgage guaranty insurance industry. The treaties provide for the cession of a portion of various risks written on a direct basis by company, and for Verex assumption of a portion of risks written by other direct mortgage guaranty insurers, for both primary and pooled mortgage loan insurance policies.

Each reinsurance agreement of the company was undertaken for regulatory compliance purposes, to satisfy limitations established by various jurisdictions regarding the proportionate amount of risk that a mortgage guaranty insurer is allowed to retain for its own account. In certain jurisdictions a mortgage guaranty insurer is limited to a maximum retention equal to 25% of the indebtedness of the borrower on the insured loan. Coverages written by the company on a direct basis that were in excess of 25% of mortgage borrower debt were ceded to other insurers. In similar fashion, other direct writer mortgage guaranty insurers cede their direct written risks in excess of 25% of borrower indebtedness, so as to satisfy regulatory requirements. The company participated as a reinsurer in such transactions, assuming risks up to a maximum amount equal to 25% of the indebtedness of the borrower.

In 2000 the company assigned all of its rights and obligations for direct basis mortgage guaranty pool policies to GEMIC, and the company now does not have any direct or ceded pool risks.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, statutory annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of company surplus, the run-off of the company's book of insurance risks, NAIC Insurance Regulatory Information System (IRIS) ratio results for the years under examination, and the year-end 2000 policyholder's position surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Members' Surplus per Examination."

Verex Assurance, Inc.
Assets
As of December 31, 2000

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$196,129,535	\$ 0	\$ 0	\$196,129,535
Stocks:				
Common stocks	2,163,693			2,163,693
Mortgage loans on real estate:				
Other than first liens	28,556			28,556
Receivable for securities	985,838			985,838
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	79,093			79,093
Reinsurance recoverables on loss and adjustment payments	31,436			31,436
Interest, dividends, and real estate income due and accrued	2,797,907			2,797,907
Other assets nonadmitted:				
Bills receivable, not taken for premiums	641,445		641,445	
Write-ins for other than invested assets				
Losses recoverable	33,657		33,657	
Accounts receivable	<u>16,380</u>	<u>—</u>	<u>16,380</u>	<u> </u>
Total Assets	<u>\$202,907,539</u>	<u>\$0</u>	<u>\$691,481</u>	<u>\$202,216,058</u>

Verex Assurance, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2000

Losses	\$10,010,604
Loss adjustment expenses	288,843
Contingent commissions and other similar charges	19,124
Other expenses (excluding taxes, licenses, and fees)	341,707
Taxes, licenses, and fees (excluding federal and foreign income taxes)	252
Federal and foreign income taxes (excluding deferred taxes)	2,393,487
Unearned premiums	1,585,920
Remittances and items not allocated	99,748
Payable to parent, subsidiaries, and affiliates	417,374
Write-ins for liabilities:	
Statutory contingency reserve	<u>17,454,237</u>
 Total Liabilities	 32,611,296
 Common capital stock	 3,425,000
Gross paid in and contributed surplus	50,339,038
Unassigned funds (surplus)	<u>115,840,724</u>
 Surplus as Regards Policyholders	 <u>169,604,762</u>
 Total Liabilities, Surplus, and Other Funds	 <u>\$202,216,058</u>

**Verex Assurance, Inc.
Summary of Operations
For the Year 2000**

Underwriting Income

Premiums earned	\$4,011,387
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Deductions

Losses incurred	(3,373,776)
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Loss expenses incurred	261,466
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Other underwriting expenses incurred	<u>553,429</u>
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Total underwriting deductions	<u>(2,558,882)</u>
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Net underwriting gain	6,570,269
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Investment Income

Net investment income earned	10,134,480
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Net realized capital gains or losses	<u>(5,677)</u>
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Net investment gain or loss	10,128,803
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Net income before dividends to policyholders and before federal and foreign income taxes	<u>16,699,072</u>
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Net income after dividends to policyholders but before federal and foreign income taxes	16,699,072
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Federal and foreign income taxes incurred	<u>1,108,012</u>
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Net Income	<u>\$15,591,060</u>
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Verex Assurance, Inc.
Cash Flow
As of December 31, 2000

Premiums collected net of reinsurance	\$3,033,378	
Loss and loss adjustment expenses paid (net of salvage or subrogation)	4,031,303	
Underwriting expenses paid	<u>580,480</u>	
Cash from underwriting		\$(1,578,405)
Investment income (net of investment expense)		9,817,433
Deduct:		
Federal income taxes paid	<u>1,683,734</u>	
Net cash from operations		\$6,555,294
Proceeds from investments sold, matured, or repaid:		
Bonds	7,568,109	
Stocks	15,720,243	
Mortgage loans	7,464	
Real estate	138,150	
Miscellaneous proceeds	<u>(931,414)</u>	
Total investment proceeds		22,502,552
Cost of investments acquired (long-term only):		
Bonds	12,626,798	
Stocks	16,195,317	
Real estate	<u>194,023</u>	
Total investments acquired		<u>29,016,138</u>
Net cash from investments		(6,513,586)
Cash provided from financing and miscellaneous sources:		
Net transfers from affiliates	<u>19,923</u>	
Total		19,923
Cash applied for financing and miscellaneous uses:		
Other applications	<u>61,631</u>	
Total		<u>61,631</u>
Net cash from financing and miscellaneous sources		<u>(41,708)</u>
Net change in cash and short-term investments		\$ 0
Reconciliation		
Cash and short-term investments, December 31, 1999		<u>0</u>
Cash and short-term investments, December 31, 2000		<u>\$ 0</u>

Verex Assurance, Inc.
Policyholder's Position Calculation
As of December 31, 2000

Surplus as regards policyholders		\$169,604,762	
Contingency reserve		<u>17,454,237</u>	
Total policyholders' position			\$187,058,999
Net minimum policyholders' position			
Individual loans:			
Loan-to-value more than 75%	9,602,708		
Loan-to-value 50- 75%	108,655		
Loan-to-value Less than 50%	<u>\$ 5,769</u>		
Total individual loans		9,717,132	
Group of Loans:			
Equity 20 - 50%, or equity plus prior insurance or deductible 25 – 55%	89,143		
Equity more than 50%, or equity plus prior insurance or deductible less than 55%	<u>17</u>		
Total group loans		<u>89,160</u>	
Total minimum policyholders' position			<u>9,806,292</u>
Excess of total policyholders' position over minimum policyholders' position			<u>\$177,252,707</u>

Verex Assurance, Inc.
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1996	1997	1998	1999	2000
Surplus, beginning of year	\$124,339,330	\$127,746,249	\$139,324,374	\$152,754,906	\$153,809,358
Net income	186,231	14,156,578	14,970,705	16,796,915	15,591,060
Net unrealized capital gains or (losses)	3,901,985				
Change in nonadmitted assets	(681,297)	522,131	371,633	374,837	556,395
Dividends to stockholders				(15,000,000)	
Write-ins for gains and (losses) in surplus:					
Increase in statutory contingency reserve	(7,541,448)	(5,766,558)	(4,215,272)	(3,000,256)	(2,005,694)
Extraordinary release of statutory contingency reserve	7,541,448	1,105,299	518,730		
Ten-year release of statutory reserve		1,550,677	1,784,736	1,882,956	1,653,642
Surplus, end of year	<u>\$127,746,249</u>	<u>\$139,324,374</u>	<u>\$152,754,906</u>	<u>\$153,809,358</u>	<u>\$169,604,762</u>

Verex Assurance, Inc.
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2000

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. An asterisk denotes the sole exceptional ratio result that occurred during the period. A discussion of the exceptional ratio follows the table of IRIS ratios.

	Ratio	1996	1997	1998	1999	2000
#1	Gross Premium to Surplus	15%%	8%	5%	4%	2%
#1A	Net Premium to Surplus	14%	7%	4%	3%	2%
#2	Change in Net Writings	-12%	-30%	-29%	-30%	-33% *
#3	Surplus Aid to Surplus	0%	0%	0%	0%	0%
#4	Two-Year Overall Operating Ratio	98%	14%	0%	0%	0%
#5	Investment Yield	5.4%	5.6%	5.4%	5.1%	5.2%
#6	Change in Surplus	1%	9%	9%	1%	10%
#7	Liabilities to Liquid Assets	31%	29%	25%	21%	16%
#8	Agents' Balances to Surplus	0%	0%	0%	0%	0%
#9	One-Year Reserve Devel. to Surplus	-4%	-12%	-8%	-8%	-6%
#10	Two-Year Reserve Devel. to Surplus	3%	-8%	-14%	-10%	-9%
#11	Estimated Current Reserve Def. To Surplus	-8%	-10%	0%	0%	0%

The exceptional 2000 result for ratio number 2, Change in Net Writings, was due to material decrease of premiums written in 2000 caused by run-off of the company's existing book of business. The company's net premiums written is decreasing year-to-year as the company's existing mortgage guaranty risks either mature or are otherwise non-renewed by insured mortgage lenders. The calendar-year 2000 annual rate of decrease in net premium written was

33%, equal to the NAIC threshold for the classification of ratio number 2 results as analytically exceptional.

Run-Off of Verex Assurance, Inc.

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1996	\$197,836,412	\$70,090,164	\$127,746,249	\$186,231
1997	194,228,995	54,904,621	139,324,374	14,156,578
1998	201,875,333	49,120,427	152,754,906	14,970,705
1999	195,385,385	41,576,027	153,809,358	16,796,915
2000	202,216,058	32,611,296	169,604,762	15,591,060

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1996	\$15,788,765	\$13,792,691	\$15,082,896	126.4%	11.1%	137.5%
1997	11,338,351	9,612,243	11,513,116	44.6%	11.2%	55.8%
1998	8,082,943	6,860,677	8,430,544	50.6%	7.0%	57.6%
1999	5,713,045	4,816,126	6,000,512	(21.5)%	9.3%	(12.2)%
2000	3,104,038	3,227,151	4,011,387	(77.6)%	17.1%	(60.5)%

Reconciliation of Surplus per Examination

The current examination determined that there were no matters of material exception regarding balances reported by Verex in its year-end 2000 statutory financial statement, and the examination did not make any adjustment to account balances or surplus as reported by the company. The company's policyholder surplus as of December 31, 2000 per the examination equals \$169,604,762.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific recommendation in the previous examination report. The recommendation contained in the last examination report and actions taken by the company is as follows:

1. **Contingent Liabilities**—It is recommended that the company report pending legal proceedings which are beyond the ordinary course of business, which could have a material financial effect, in its “notes to the financial statements.” It is further recommended that this note include a description of the indemnification agreement with Finova.

Action—Compliance.

Summary of Current Examination Results

Conflict of Interest Disclosures

A directive issued by the Commissioner requires that each director, senior executive officer, or fiduciary employee of an insurer annually disclose to the board of directors any personal circumstances that could potentially give rise to conflict of interest. The GE mortgage insurance group has a conflict of interest disclosure procedure in which all employees annually complete a conflict of interest disclosure representation. The disclosures are filed electronically each year, and are reviewed and evaluated by GEMIC management.

The examiners determined that the company's procedures for conflict of interest disclosure appear to be comprehensive and to adequately inform management of potential conflict of interests. However, the company does not retain documentation of the electronically filed disclosures, and the examiners were unable to perform an independent review of disclosures made by company personnel during the years under examination. It is recommended that the company's officers, directors, and fiduciary employees annually complete and file with the company a conflict of interest disclosure, in conformity with the directive of the Commissioner. It is further recommended that the company maintain files of individual conflict of interest disclosure filings from examination to examination, so that the disclosures may be available for independent regulatory review and evaluation.

Biographical Disclosures

Examination review determined that, during the period under examination, the company did not make the required disclosures of biographical information upon the selection or appointment of new officers and directors. Requirement for biographical disclosure is established pursuant to chapter 611.54, Wis. Stat., and is further implemented pursuant to s. Ins. 6.52 (5), Wis. Admin. Code, which provides that an insurer shall disclose biographical information with respect to the appointment or election of any new director, trustee, or officer within fifteen days of the appointment or election. It is recommended that the company timely provide biographical disclosure upon the appointment or election of new officers and directors, in conformity with chapter 611.54, Wis. Stat., and s. Ins. 6.52 (5), Wis. Admin. Code.

Permitted Practice Disclosure

A Wisconsin domiciled mortgage guaranty insurer is required to establish a statutory contingency reserve and to make annual contribution to the reserve. As provided in s. Ins. 3.09 (12) (c), Wis. Admin. Code, annual changes to the contingency reserve shall be reported in the insurer's statutory annual statement as an underwriting income transaction. The Wisconsin requirement is unlike the requirement established by NAIC statutory codification, which provides that changes in contingency reserve be reported as direct changes to surplus.

In 1997 the company requested permission to report current-year change in contingency reserve as a direct adjustment to surplus, to enable Verex to standardize its reporting practice with the accounting practice used by the other GE mortgage guaranty insurers in their compliance with required practice in their state of domicile. The Commissioner approved the requested authorization on behalf of Verex, and Verex exercises a Wisconsin permitted practice to report its contingency reserve changes as surplus adjustments rather than underwriting income transactions.

Examiner review of the company's statutory annual statements determined that from 1997 to 2000 the company employed the Wisconsin permitted practice in preparing its annual statements. However, the company did not make appropriate disclosure of its use of the permitted practice in the Notes to Financial Statements for its annual statements during the

period. During the course of current examination fieldwork the examiners brought the disclosure oversight to the attention of company personnel, who were engaged in final preparation of the statutory annual statement for 2001. Company personnel included disclosure of the permitted practice in the notes to the 2001 annual statement, and indicated that the company will include in future annual statements appropriate disclosure of the company's use of Wisconsin permitted practice for reporting changes in statutory contingency reserves.

VIII. CONCLUSION

Verex Assurance, Inc. is a Wisconsin domiciled insurer authorized to conduct the business of mortgage guaranty insurance. The company ceased direct issuance and reinsurance of new insurance policies in 1998, and its risks-in-force have been in run-off for the past fourteen years. The existing business is comprised solely of policy renewals, and premium volume is decreasing from year-to-year as existing policies non-renew due to mortgage borrower repayment or termination of the insured mortgage loan, or due to borrowers' establishment of sufficient equity in the mortgaged property to qualify for elimination of mortgage insurance. As of year-end 2000 the company's premium volume equaled two percent of policyholder surplus. Company management does not have specific business plans with regard to business resumption or company redomestication.

General Electric Company holds the ultimate ownership and control of the company, GE having purchased the company in 1993. The company is a member of the GE mortgage insurance group, and Verex operations are located at the home offices of the lead GE mortgage insurer, General Electric Mortgage Insurance Corporation, located in Raleigh, North Carolina. All of the administrative, investment, and operating functions of the company are performed by affiliates within the GE holding company organization pursuant to formalized intercompany agreements.

The current examination made two recommendation, summarized in section IX of this report. The examination determined that there were no material exceptions in the account balances reported in the company's year-end 2000 statutory financial statements, and made no reclassifications of account balances or adjustment to reported surplus. The examination determined that, as of December 31, 2000, the company had total admitted assets of \$202,216,058, total liabilities of \$32,611,296, and policyholders' surplus of \$169,604,762.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Conflict of Interest Disclosures—It is recommended that the company's officers, directors, and fiduciary employees annually complete and file with the company a conflict of interest disclosure, in conformity with the directive of the Commissioner. It is further recommended that the company maintain files of individual conflict of interest disclosure filings from examination to examination, so that the disclosures may be available for independent regulatory review and evaluation.
2. Page 29 Biographical Disclosures—It is recommended that the company timely provide biographical disclosure upon the appointment or election of new officers and directors, in conformity with chapter 611.54, Wis. Stat., and s. Ins. 6.52 (5), Wis. Admin. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Ryan Hanson	Insurance Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge